The Future of Procurement

Procurement has languished toward obsolescence and will die without a transformation. Today's chief procurement officers have just one job: adopt a future-focused model to meet users' needs.

“We are still trying to solve many of the same problems we were talking about two decades ago.”

—CPO of a multinational bank

Over the past few years, we have received a litany of calls from clients who have spent millions of dollars on their procurement technology suites, and across the board, they say the solutions have failed to live up to what was promised. Bad user experiences, incomplete functionality, and a lack of advanced features were just a few of the many issues they discussed. Many companies have asked us what to do.

Inexplicably, this steady stream of frustrations came at a time when “digital procurement” was a hot topic. Spurred by the digital revolution of big data, robotic process automation, artificial intelligence (AI), and blockchain, a flood of hype promised to bring procurement into the 21st century.

Exploring this dichotomy set us on a journey to better understand how companies are embracing—or not embracing—their legacy systems, what real innovations are emerging in the market, and how procurement organizations should prepare for the future. We co-created this vision with our clients and our external networks. Taken together, the insights have become the foundation of our Future of Procurement series of articles. It started as a set of thought-provoking, provocative articles to spur conversations and break complacency with the status quo. The response has been overwhelmingly positive as our articles tapped into a deep well of frustration and resentment. For example, we posited that “procurement technology is an abject failure, totally not fit for purpose. Everyone hates it.” That turned out to be an unassailable truth for many.

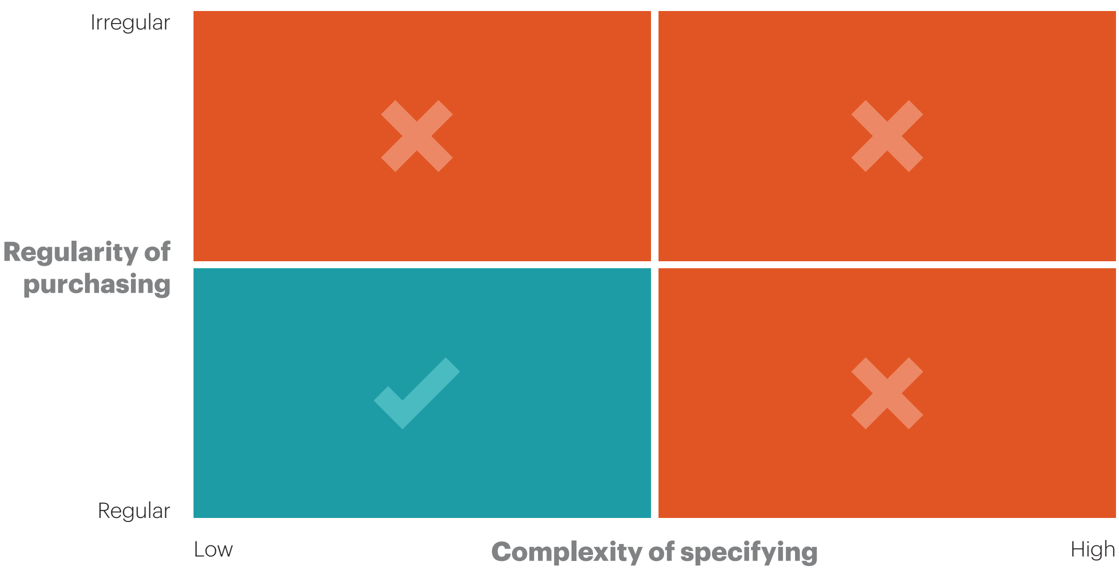
In our examination of market trends, we discovered there has been nearly $500 million of venture capital invested in procurement technology start-ups over the past five years—a staggering sum considering that less than a decade ago, everyone seemed to think the market was mature. But in exploring what these start-ups are focused on, we made a stunning discovery. Nearly three-quarters of them are solving problems from the early 2000s: spend visibility, supplier rationalization, and basic sourcing. This got us wondering: where did all the fancy digital technology go? Turns out that part of the equation remains unaccounted for—and thus an opportunity.

Identifying the issues was easy; the hard part was identifying the implications. How will digital technology impact direct versus indirect procurement activities? What type of talent will be needed, and why should CEOs care? Will procurement as a function continue to exist? These are just a few of the questions we address in this article. Simultaneously, there are market forces at play as legacy players such as Emptoris exit the space and SAP retires older versions of Ariba. Perhaps the biggest question is when the corporate buying experience will be like shopping on Amazon. In that vein, one CEO has asked, “Why can we not just have an app that does procurement for us?” It’s a fair question.

A good place to begin this discussion about unrealized “digital disruption” and the future of procurement is by getting back to the basics and understanding the fundamental problems. One very basic problem is that procurement organizations around the world are struggling to keep their internal customers satisfied. In fact, many are more of a barrier than a benefit. Today’s consumers are deeply familiar with online platforms such as Amazon, where buying is simple and fast, and they have come to expect a seamless buying process with full transparency on product details, prices, alternatives, and delivery information. And yet, these same consumers often face complex, opaque purchasing processes when they are at work. An array of business stakeholders, including chief financial officers (CFOs), are beginning to clamor for change as they question the value of procurement.

As technology such as AI, blockchain, and advanced analytics move into the mainstream, procurement's low-value repeatable work such as simply processing orders is rapidly being automated or displaced. However, many of these advancements are still trying to solve the same spend-transparency challenges that were top-of-mind two decades ago. Even today, procurement is only at its best when it handles regular purchases with simple specifications (see figure 1).

Figure 1
Procurement today deals well with regular, low-complexity purchases, but less well with everything else



Source: A.T. Kearney analysis

Procurement stumbles with irregular purchases and complex specifications for several reasons:

- **Specification is an art.** Usually, procurement is barely involved in specifying for direct categories. Specialist functional experts—often engineers or operations managers—typically indicate what they want. For indirect categories such as marketing, professional, or legal services and technology, the story is the same.
- **Irregular purchases are still challenging.** Today's systems and processes do not cope well with one-offs from a transactional perspective.
- **Data analytics still lacks the ability to identify patterns and deduce trends that can be acted upon.** For example, procurement struggles to drive value from tail spend yet slows down users by forcing them to follow complex and broken administrative processes.

Even when companies have sourced effectively and agreed on contractual terms, they often fail to adhere to those terms or buy on contract, which leads to maverick spending. Procurement functions then claim "savings" that are often unrealistic and do not land on the bottom line. At the same time, the bad news of inflationary impacts is often ignored. This reduces credibility with senior executives. One CEO we know tells the story of a procurement function that claimed savings that were greater each year than the entire profit of the organization. This behavior is unhelpful and adds to the noise.

Amid the escalating expectations of consumers and the companies they work for, procurement is at risk of collapsing under the weight of its own complexity. Forward-thinking procurement must turn its attention to its primary purpose: translating supply–market value into product value for the end customer. The key tenets of this kind of disruptive procurement have largely been forgotten in the day-to-day busywork of common desktop activities such as negotiating savings, managing risk, ensuring legal compliance, processing transactions, and managing categories. Although there is nothing wrong with these activities, they have come to define the discipline instead of being tools in a larger toolbox.

Disruption: A Tangible Procurement Strategy

The future of procurement will require an innovative operating model and advanced skills. Disruptive procurement relies on three pillars. **Strategic sourcing** determines what to buy and from where through effective use of supply and demand power. **Supplier management** ensures that what is contracted for is what is actually delivered and then collaborates with the supplier to bring in more supply-market expertise to drive the right supplier behaviors. Finally, **advanced technology and processes** provide a frictionless, compliance-based buying experience.

All too often, these pillars are abandoned because the organization lacks the basic insights and understanding to harness supply-market power, fails to adequately track supplier performance, and lacks the talent to design an advanced system. As a result, too much attention is paid to costs, arguing over contract terms, and insisting on control over every aspect of the buying process. Administration, rigid processes, and complexity have often reigned supreme at the expense of function, utility, and the ultimate needs of the business.

To be fair, procurement is not alone in this. Other supporting business functions have been mired in similar underdeveloped levels. Finance spends much of its energy on bookkeeping rather than driving effective capital utilization. Human resources spends a great deal of time on processes and administration rather than motivating and enabling the workforce. IT focuses on limiting what users can do or not do instead of harnessing the power of technology to help the business compete. However, this situation will change dramatically as companies begin to use transformative digital technology.

Digitalization and Procurement

In many ways, today's procurement organizations resemble white-collar versions of manufacturing in the 1970s. Manual processes still dominate, even as automation transforms other business functions. Legions of staffers handle low-value sourcing and demand-management activities, where they have leverage over suppliers and the ability to influence users. Routine, labor-intensive transactional activities such as pricing negotiations, contract awards, and supplier performance monitoring consume time and attention. Procurement workers spend hours piecing together fragmented information flows from myriad transactions—a task technology could perform in seconds. Meanwhile, internal stakeholders grow frustrated by what they perceive as slow service, yearning for self-service options and direct access to more comprehensive information about the purchasing process.

All this is about to change. Procurement is ripe for reinvention with digital technologies on pace to automate and create transparency for most routine processes within three to five years. A convergence of AI, advanced analytics, and other new technologies will automate manual processes and empower business users with the tools and information to get what they need—without help from procurement. However, forward-thinking procurement organizations are looking beyond automation, transparency, and simply cutting costs. Digitalization has the power to unleash a wealth of new value sources and give procurement a much larger strategic role.

Procurement Technology is Coming of Age

Automation fuels efficiency and creates opportunities for procurement to add value in areas that can't be automated. Like production managers in a modern digital factory, procurement leaders can orchestrate end-to-end processes with a strategic perspective and an eye on long-term value. As technology takes over routine transactional work, they can focus on higher-value activities such as forming vendor partnerships and re-engineering products.

The future of procurement looks familiar in some ways and strikingly different in others. The function will always meet basic needs such as selecting suppliers, but digitally enabled procurement teams will play a larger role in advancing corporate strategies by improving products and services and turning supplier capabilities into a competitive advantage.

> Successful procurement technology has one job—to provide a robust yet easy-to-use system for transforming needed goods and services into value for a company so it can excel at its own business.

It may be tempting to dismiss advances such as AI as just another wave of hyped technologies. After all, the tools that software vendors such as SAP and IBM have rolled out have barely touched procurement. Today, few processes are fully automated, and end-to-end information transparency is limited. Although large global manufacturers have automated replenishment and other direct spending categories, manual processes persist for indirect expenditures, and many companies have yet to automate all direct categories.

Blame traditional software vendors' sluggish innovation or procurement stakeholders' resistance to technology—or both—but lagging technology adoption is holding the function back. Procurement organizations often can't fully use their sourcing software, and many chief procurement officers are left hoping major vendors will someday offer a valuable user-friendly option.

The technological tipping point is here. AI, blockchain, and the Internet of Things (IoT) are transforming how we interact with technology, and they're converging to form autonomous procurement tools that will run the entire procure-to-pay process, including generating contracts. Data input and classification will become much more accurate when intelligent systems start executing transactions independently. In fact, some companies already use AI to classify spend. Even more impressive is the potential of AI and blockchain to track contract compliance in real time, a feat nearly impossible for today's archaic systems.

The implications are profound. For a glimpse of the future, consider technology's impact on corporate IT departments over the past two decades. Automation didn't disrupt IT overnight but encroached slowly and subtly. Back in 2000, data centers were staffed by well-paid systems administrators with advanced technical skills who kept IT networks running smoothly. It was hands-on work overseeing fleets of on-site servers that were manually racked and locally managed. Most companies had one systems administrator for every 10 servers. A decade later, the ratio had dropped to one administrator for every 100 servers as virtualization and cloud computing transformed IT infrastructure. Humans were still involved, but automated systems made basic tasks such as deploying new servers and responding to problems as simple as point and click. Today's IT systems are largely self-managing, self-diagnosing, and self-repairing. AI tracks usage, decides when to add capacity, deploys new servers, spots trouble, and repairs machines—with no human intervention. Today's ratio of systems administrators to servers? One to 35,000. The few remaining administrators keep tabs on automated systems that do the work they used to do. In less than two decades, technological progress has all but eliminated a lucrative, high-skill career.

Procurement is moving down the same path. Automation and information transparency continue to expand, especially in categories where companies have the economic leverage to force vendors to adopt new technologies. The future looks bleak for procurement workers who handle the low-value work of basic negotiations, writing statements of work, and churning out reports. Software will take over these tasks and empower users with the information they need to make their own decisions. As employment levels shrink, talent requirements will shift, favoring people who know how to solve problems and work across functional boundaries. Procurement's focus will turn to categories that are more intrinsic to the product offer where suppliers have more power and more to offer, increasing demand for skills such as rethinking specifications and managing negotiations and alliances.

Procurement Transformation: a Strategic Imperative

So far, procurement technology has been a disappointment. Business and procurement users alike loathe it, and technology vendors treat procurement as a second-class citizen. In fact, after years of technology deployment, most organizations still struggle to get a comprehensive view of their spending. The systems are rigid and complicated, and they only solve a fraction of procurement's requirements. Across the board, these systems curtail progress and hinder excellence instead of enabling it.

For anything other than simple pre-specified and pre-sourced catalog-based purchases, for example, they do not help the user specify what is required or choose the right supplier, and they fail to support what the price ought to be. And there is usually no systematic, embedded classification of what was actually purchased so trends can be identified and managed in a timely manner. What emerges is an inability to know where money is being spent and with whom, much less an ability to strategically direct that spending. This puts procurement into a backward-looking mode at a time when looking ahead is crucial.

So how did we get here? Today's procurement technology landscape is based on a linear concept of sourcing and procure-to-pay activities with a bit of analytics and governance thrown in. Traditional suites are nice, neat packages, but they reflect little about the reality of day-to-day procurement, and they have forgotten the main goal of procurement: transforming goods and services into corporate value. After nearly two decades of failure, tech vendors are finally waking up to this.

The Beginnings of a Procurement Revolution

Despite the bleakness of procurement suite solutions, several effective technology start-ups have emerged over the past few years. For example, Scout burst onto the scene in 2014 with a fresh take on sourcing tools built on modern architectures and updated sourcing concepts. The sourcing functionality is comparable to previous systems, but it is much more intuitive, faster, and easier to use. Advanced analytics companies such as Tamr are applying machine learning to challenges such as spend management and complexity reduction. Consequently, the once-onerous analysis of tail spend is vastly sped up and simplified, potentially unlocking opportunities worth tens of millions of dollars.

> The tyranny of "one-size-fits-all" suite solutions is being undermined by technological change and diverse nontraditional service providers who bring genuine innovation.

A cynic might look at these new start-ups and conclude that they will be gobbled up by the big-suite companies. However, there is a fundamental reason why this may not happen. The software development industry has gone through its own transformation during the past decade, creating a new foundational architecture in the process. Based on cloud technology, it is designed around microservices supporting application programming interfaces. These microservices allow apps to seamlessly connect to one another, enabling the easy and seamless exchange of information across applications. These advancements give users the best possible functionality and the ability to quickly—and ideally, cheaply—modify as needed. The traditional functions in the rigid linear process are now distributed through an extendible ecosystem that allows for very precise, and even overlapping, use of best-of-breed technologies.

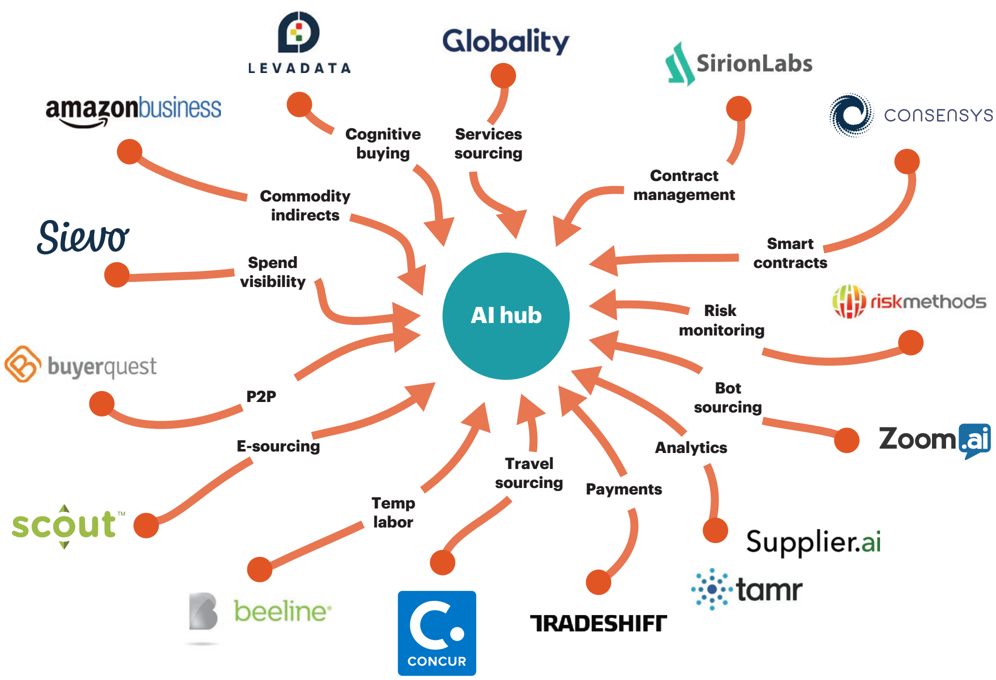
For example, a procurement organization could use Sievo for spend analytics while also using Tamr for tail-spend management. Traditional systems such as procure-to-pay (P2P) will still be required and will not go away, but instead of being closed systems, they will open up into a broader more flexible ecosystem. Underpinning this new architecture is an AI hub that can serve as the integration point and drive the push toward automation. This will require suite providers to change their long-term strategies, which will be counter to their short-term revenue models. However, there will be plenty of opportunities for them to not only survive but excel. Their individual components will still be relevant, but they will be required to compete in the open market and will lose their ability to lock customers into a proprietary offering.

It is not possible to predict precisely which products and which vendors will succeed in the future. However, we believe the technology landscape of the future may be an ecosystem of interconnected tools, not a classic linear suite solution (see figure 2).

Figure 2

Procurement technology of the future will be a mosaic connected to an artificial intelligence hub

Illustrative



Source: A.T. Kearney analysis

The Need for a Digital Procurement Platform

As mentioned, a CEO recently asked why there isn't an app for procurement. What he really meant was, "Why do I pay for a procurement function when my partner, kids, and nearly every other person who shops online have a frictionless customer experience with a simple click of a button?" While they are shopping, they automatically receive recommendations for other—possibly better—options with instant visibility to compare prices, warranties, shipping options, and customer reviews so they can make an informed choice. Today's consumers can buy almost anything at any time with a nearly unlimited number of choices, which of course encourages people to shop and buy more. The entire buying process is quick and easy.

Now compare that with corporate buying. The experiences could not be any more different. Most corporate purchasing is slow, opaque, and downright onerous—fueled by a broader objective to control spending. Procurement departments work tirelessly to create and maintain corporate catalogs of standard items and employ teams of people to source unique goods and services. This creates several structural problems.

First, for catalog items, there are limitations on the product assortment, warranties, shipping options, and prices. These factors are usually negotiated in advance and are not adjusted for market dynamics or a supplier's performance. In addition, catalog systems are labor-intensive to set up and maintain, so while a large portion of spending might take place within the system, the company could be missing out on the advantages of their supply and demand power. For non-standard goods and services, the process is more complicated, often requiring procurement personnel to interject themselves into the buying process despite having no expertise about the product or the supply market. As a result, decision-making is much slower—often with no material improvement to the outcome.

Consider this example. A consumer who wants to buy an airline ticket can go to her favorite carrier and look for fares, and if she sees something she likes, she can buy it, or she can go to a travel clearinghouse site and look for a deal that meets her needs. In the corporate world, that buying experience looks much different. For most companies, booking a flight requires either calling an approved travel agent or going to a corporate travel portal that has a list of pre-approved suppliers. The problem is the negotiated rates could be higher than what is happening in the market, not to mention that the process is more time-consuming and complex.

Of course, procurement does still have a role to play. But the fundamental question is why the function is right in the middle of the purchasing process if it is not adding value. Procurement often acts as a quasi-budget control function, operating with the implicit mantra that if buying is difficult, then expenditures will be lower. However, this is the wrong approach. Forward-thinking companies control their budgets while also meeting the needs of the business without impeding productivity. If someone needs to buy something, the process should not only be easy but also add value rather than being a shadowy way to regulate spending.

The Digital Consumer Revolution

The consumer market reveals there is a better way. Corporate procurement should be focused on orchestrating a buying experience that mirrors the consumer experience. When this happens, business users will be much happier with the process, and procurement will be empowered to deliver more value by focusing on activities and spending areas that are strategic to the business. This will require forming close relationships with internal stakeholders as well as strategic partnerships with external suppliers that understand what the company needs. The consumerization of the corporate environment is not a new phenomenon. But in most industries, it has been happening surprisingly slowly. After all, nearly everyone who works in a corporate environment has experienced a frictionless and satisfying digital experience in their private lives—not only through online shopping, but also in social media, gaming, online communities, virtual learning, or simply browsing the Web. The proliferation of easy-to-use devices such as smartphones, tablets, and digital media players, just to name a few, offers users of all ages and skill levels a gratifying way to engage in the digital world.

One driving and practical force of the digital consumer revolution has been the notion of the customer journey—the stages a consumer goes through when interacting with a company. This has put a spotlight on the individual user experience. However, corporate systems have been built around complex business processes or obsolete technology. Leading organizations are adopting the customer journey approach to redesign their procurement functions. An effective method for enabling this new approach is to use design thinking, which seeks to create a product that delights customers with a frictionless experience. This requires bringing customers into the design process at all stages to ensure their needs are being met. In a corporate environment, this can mean meeting internal customer needs by first asking them about those needs, all while capturing productivity gains, cost savings, and a competitive advantage. Not surprisingly, tech companies that offer superior customer journeys—think Amazon, Snapchat, Airbnb, and Apple—excel at design thinking.

Creating Innovative Procurement Processes

Perhaps the greatest indicator of a procurement organization's failure—aside from unhappy users—is the inability to accurately report where money is being spent, if what is being paid matches what was contracted, and how suppliers are performing. And although most organizations claim to have negotiated lower prices, the savings often do not clearly affect profit.

To control external spending and manage supplier risk, many procurement organizations have a complicated set of rigid processes embedded into an archaic set of tools that attempt to control where money is spent and ensure maximum use of pre-negotiated contracts. And yet despite these processes, money goes here, there, and everywhere with no actual control. In reality, procurement is seldom able to reconcile spending with the original supplier agreements. Forcing people to use these processes gives the illusion of control, but the reality is that few businesses have controls that actually work—a problem that grows exponentially more complicated for industries with regulatory reporting burdens.

The exception is in areas where control is needed for non-procurement purposes such as rigid specifications and supplier qualification requirements to achieve quality control. In these cases, procurement usually struggles to address such constraints in a way that drives commercial advantage. However, successful corporate models do exist. Visit a San Francisco Bay Area start-up, and, aside from free lunches, dogs, and toy-filled conference rooms, you will likely see an IT vending machine filled with a variety of desktop and smartphone peripherals such as Bluetooth keyboards, earbuds, and flash drives—frequently used items that are there for the taking by any employee who needs them. All they have to do is scan their badge and make their selection.

This is the epitome of trust with verification—giving everyone access to the things they need to do their jobs but preventing anyone from abusing the system. In this model of procurement, controls are based on audits, and since everything is digitally tracked, there is little concern for theft or malfeasance. Besides, the benefits far outweigh the risks. Employees can get the items they need when they need them without having to involve anyone from either procurement or IT, and procurement can tailor the items that are in each vending machine based on the equipment that is used in each office.

Rather than relying on front-end controls that slow down the process, innovative organizations use after-the-event controls that create transparency and data-enabled feedback loops for prioritization. Traditional procurement functions with corporate catalogs, purchasing requisitions, and complex processes are designed on the assumption that procurement's job is to prevent employees from abusing the system. These efforts are supported by purchasing systems that enable these command-and-control principles.

This puts procurement in a challenging position in terms of building trusting relationships. Too many companies let a few potential bad apples ruin the purchasing experience for everyone, and as a result, procurement loses credibility as a valuable business partner.

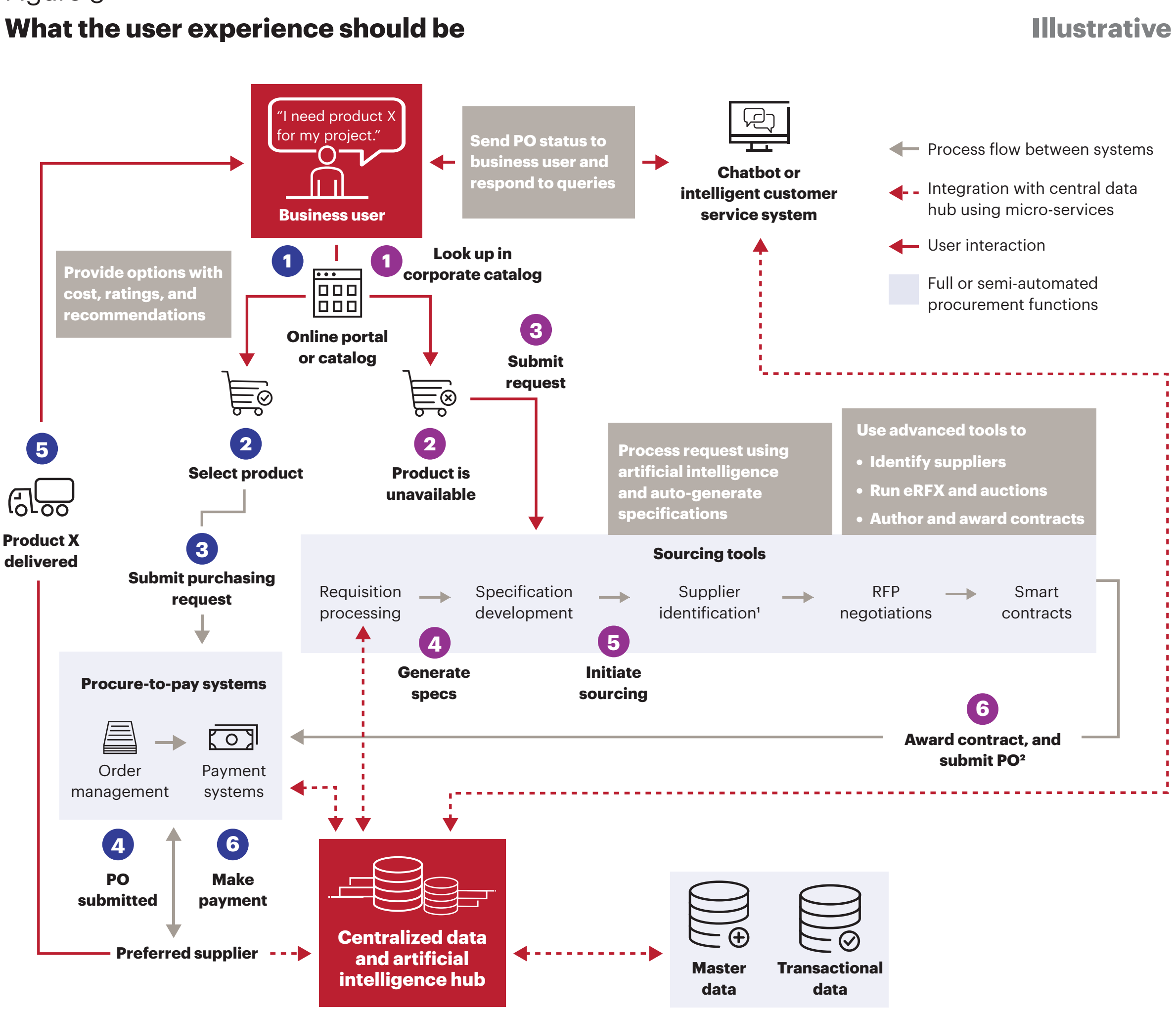
In the midst of the digital consumer revolution, now is the time to rethink procurement's contribution to the buying process.

Redesigning Procurement with an Eye on the Customer

If you could design a new customer experience for corporate purchasing, what would be the compelling, inspirational North Star to follow? Why not create a buying experience with immediate transparency into prices, shipping options, warranties, and performance reviews so users can make an informed decision? Provide a sleek, fast, and enjoyable experience, but create controls that enable transparency and provide feedback to prevent poor behaviors. Or better yet, use artificial intelligence to optimize recommendations and provide visibility into supply and demand.

Design the customer experience with a "trust but verify" mind-set. In other words, give users flexibility and choices but with the necessary guide rails (see figure 3). This approach also improves procurement's ability to quickly detect fraudulent activities, avoid overpayments, and

Figure 3
What the user experience should be



[1] Supplier relationship management tools are integrated with category specific niche supplier identification tools.
[2] New suppliers are added to catalogs and enterprise resource planning systems.
Note: eRFX is an electronic request for a proposal, quote, information, or tender.
Source: A.T. Kearney analysis

simplify regulatory compliance. Once the new process is in place, verify and publicize the results to show how procurement is adding value.

This approach will require plotting a new course—much more than simply putting the same cast of characters through a half-day brainstorming session. The consumerization of procurement will require a comprehensive methodology, such as design thinking. Combining design thinking and workshops with procurement, end users, and IT can shed light on a powerful new approach that identifies issues, uncovers needs, and prioritizes an optimal solution. Inspired by the digital revolution, these new requirements must employ a microservices architecture, best of breed solutions, advanced analytics, and intelligent automation—underpinning the entire solution with a business process management workflow system.

Automated Procurement Will Soon Be Here

Operational procurement is well on its way to becoming fully automated through AI. Major components such as P2P are going in that direction, and so are even higher-value functions, such as automated buying, AI sourcing managers, and the chatbot supplier help desk. AI is already embedded in individual applications, including services sourcing, where it guides buyers through supplier identification, the RFP event, and creation of statements of work. The tools empower users, freeing them to buy what they need without procurement's interference. Instead, procurement's value-add is that it engineered the system to deliver a seamless buying experience that fits within the enterprise's strategic objectives.

> Self-serve procurement is the new reality for indirect purchases; procurement's role will be to orchestrate, not to intervene in every sourcing decision.

Similarly, AI can be embedded into predictive supplier-risk monitoring to read nascent signals and proactively take the appropriate action without human intervention. For example, if the system is monitoring a supply base and a supplier becomes embroiled in a bribery scandal on the other side of the world, the system can automatically score the initial risk, monitor it, adjust the risk score as more information comes in, and pull up all contracts and spend associated with that supplier so the company can make decisions should the scandal grow. Going further, the AI system could also use natural-language generation to draft and post press releases and social media content to manage the story.

Perhaps the new technology with the greatest potential is blockchain. Smart contracts using blockchain can prevent money from being spent in the wrong place, which would eliminate all the effort in building spend cubes. These contracts can be programmed to monitor supplier performance and reconcile it against the terms and conditions and then dispense payments as conditions are met. Blockchain could condense and redefine the entire contract management and P2P processes. It is important to note that blockchain is still in its infancy and still lacks an agreed-upon underlying technology protocol. However, assuming it comes to fruition, it will change how contracts are negotiated and disrupt the traditional negotiation levers. Forward-looking organizations will see benefits by riding this wave early with an understanding that blockchain will require patience and a significant investment.

Begin the Technology Transformation Now

There is no off-the-shelf game plan for adopting these new procurement technologies and architecture. It is a journey that requires a CPO to have vision and passion because technological progress is never easy. Forward-thinking procurement organizations that want to eliminate their aging, underutilized technology assets can choose one of three paths (see figure 4).

Figure 4
Starting the journey

	As-is	Blend	Best-of-breed
	1. Full-scale replacement with new/upgraded end-to-end procurement suite	**2.** Full-scale replacement with new/upgraded end-to-end procurement suite and adoption of new technology	**3.** Agile enhancement of existing procurement technology, integrating and connecting to best-in-class functional specialists
Benefits	• Single end-to-end procurement suite (lower complexity)	• Best-of-breed back-end procurement tool, fully customized to user journeys (highest benefits potential) • Agile adoption of new technology, enables short-term benefits	• Modest investment over time and future-proof • Accelerated delivery of benefits • Tools can be chosen to customize the right journeys
Trade-offs	• Significant investment commitment over a 2- to 3-year rollout • Benefits realization takes years as opposed to months	• High level of investment over a 2- to 3-year rollout	• Existing technology backbone remains (over time intelligent and automated technologies may supersede the old systems)

Source: A.T. Kearney analysis

Make a like-for-like replacement with an updated core source-to-pay (S2P) system. For example, if a company owns Ariba, switch to Coupa or vice versa. Taking this path usually requires a couple of years and creates expenditures in the seven-figure range. It is also a one-shot decision where the business is committed to a specific technology for another generation or so.

Make a like-for-like replacement, and keep the existing system while adopting individual best-of-breed solutions. This is the least disruptive path. One global company we worked with is taking this route. Knowing that its S2P platform will run out of life within the next couple of years, the company is piloting new tools to manage risk. The expectation is that the company may not implement an all-embracing S2P replacement, but rather a set of agile tools that connect with one another. Many others may need to tackle the dilemma of being left with a white-elephant S2P solution (despite investing millions of dollars) by choosing this option as a way to ease the transition to non-traditional providers and technologies.

Embrace the new architecture, and adopt individual solutions, updating them as they evolve. This route lets companies enjoy the benefits of being a first mover and influence the evolution of these technologies. This is the least risky in the long run because it avoids overinvesting in what will rapidly become outdated technology. However, because it will take several years to fully realize the benefits, this route requires having a certain type of CPO who has unique leadership skills—one who is in it for the long haul. We believe, though, that this option, when paired with significant automation, will be the right answer for more procurement functions.

Speed Chess Will be the Name of the Game

Many of the exciting technological advances will disrupt indirect categories such as marketing, maintenance, and facilities, where spending tends to be unstructured and fragmented with a myriad of people across functions making purchases. Because many companies still use manual processes for indirect expenditures, technology will radically transform the way these purchases are made.

> The future of direct procurement will be about maximizing power in supply markets, creating customer value, and remaining agile.

But when it comes to direct expenditures, technology will not have quite the same impact. Spending on products that are part of the bill of materials tends to be much more structured with clear specifications, costs that are captured in the accounting system to enable inventory valuation, and strong controls. Technological and macro changes will trigger radical shifts in manufacturing and greater information transparency through digital innovation.

However, these broad changes are coming from beyond procurement—shifting the balance of power between supply and demand. For direct buyers, preparing for and taking advantage of these shifts will be essential. The winners will be those that tackle direct procurement like a strategic game of speed chess.

Supply and demand power is fundamental to direct procurement—determining category strategies, influencing the leverage over supplier behaviors, and playing a role in determining profitability in direct supply chains. A.T. Kearney's Purchasing Chessboard reveals a number of factors that determine power, such as the relative concentration of suppliers and buyers, barriers to entry in the supply market, and substitute products. Over time, two factors regulate the balance of power: suppliers' ability to create and maintain the uniqueness and scarcity that buyers need and buyers' ability to find alternative ways to meet their needs and challenge suppliers' uniqueness and scarcity. This is a love–hate relationship. Direct suppliers need to perform well to meet their customers' needs, while suppliers may also be selling to the competition. Exclusivity is a chimera that is rarely maintained forever.

In the long run, a variety of players along the supply chain are vying with each other to increase their relative power. The dynamics of this jockeying for position are changing, fueled by macro trends in production automation and information transparency—forces that are coming from beyond the procurement world. The predominant impact is that buyers in most direct markets are becoming more powerful. This shift in business-to-business markets mirrors what is happening in many business-to-consumer markets, where the buyer is king and traditional businesses are being disrupted. These shifts are making their way through the supply chain in a domino effect (see figure 5).

Figure 5
Technology is causing a domino effect in supply chains

Source: A.T. Kearney analysis

For buyers grappling with inflation and long-term concerns about scarcity and labor-market demographics, this may all seem counterintuitive. However, their relative power along direct supply chains will increase over time. It's important to consider the following points:

Disruptive technology will erode suppliers' power

Manufacturers will continue to face the disruptive force of technology. Ultrafast 3D printing is one of the most ubiquitous disruptors, but other technologies are emerging, including light-based manufacturing, embedded metrology, and simulation. Wider digital developments also mean that knowledge will be disseminated faster, and the ability to replicate innovative designs in a way that does not infringe copyrights, patent laws, and other forms of intellectual property protection will increase. This is reducing suppliers' ability to create an enduring, inherent uniqueness and scarcity, and intellectual property is becoming harder to keep. Still, suppliers must be able to innovate and improve their performance on cost, quality, and responsiveness. The most successful innovations will target consumers' needs and be co-created with them to ensure the product or service hits the mark.

Buyers will find it easier to obtain alternatives

Suppliers' ability to find and use alternatives from the supply market is growing. The digital tools to find new suppliers are better than ever and can be deployed systematically. Even more importantly, though, the ability to analytically understand specifications is stronger. In the not-too-distant past, buyers had to rely on hand-produced drawings that were hard to analyze and difficult to locate. Better tools to analyze and digitize drawings, break down specifications, and communicate the requirements in a way that can be competed with a wider supply base are becoming more common.

Product teardown is also becoming more systematized, enabling buyers to challenge specifications and open new supply markets with product redesigns. For example, in teardown labs, industrial engineers and associated experts disassemble products to identify the individual components. The list of components then enables a company to develop fact-based insights into the quality, materials, and processes that competitors are using to make their products or particular elements of the company's own products. These lists can then be used to lower costs, rationalize a portfolio, or pursue new opportunities. This can be done, for example, by optimizing the mix of ingredients to reduce costs based on commodity pricing or changing packaging to improve the package-to-product ratio. As a result, buyers are gaining power. The crucial question is whether they can wield this power and take advantage of the alternatives.

Although the impact will not be uniform, the trend toward disruptive supply chain technology is clear

Suppliers' power will endure in some areas, especially if they have preferential access to prime commodities that are both desired and in short supply. However, the forces of innovation will be disruptive. For example, because mined diamonds have come under intense scrutiny by regulators as well as social responsibility activists, companies are being challenged to use synthetic alternatives in industrial applications as well as for consumer use.

> The dynamics of the future mean that buyers will need to be more agile in how they deploy techniques to take advantage of their opportunities and the domino effect of their escalating power.

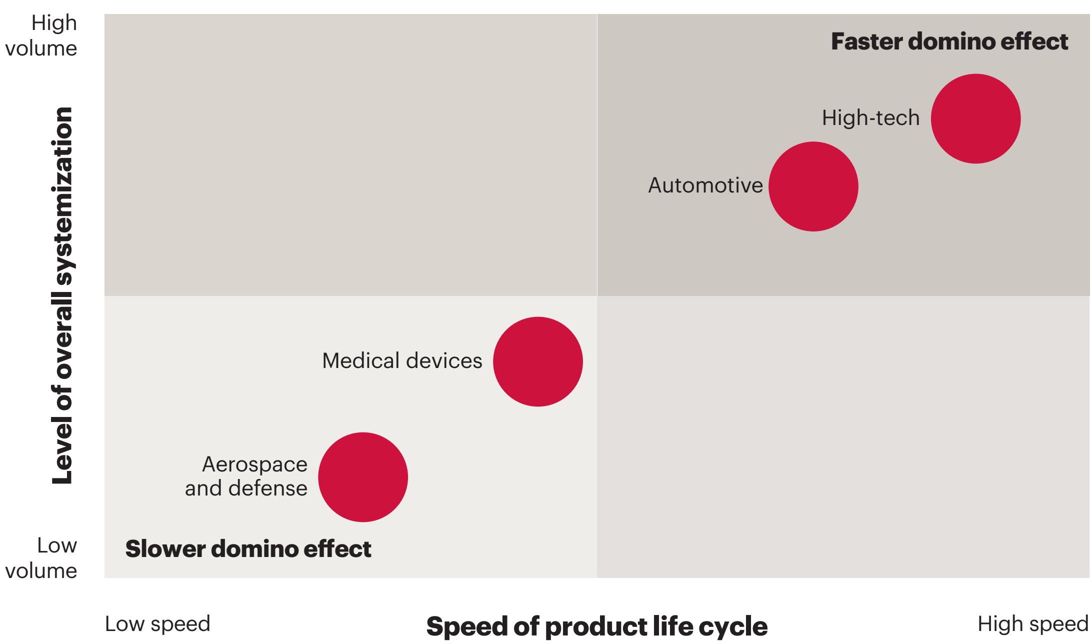
Other industries may be more reluctant to embrace new alternatives and take perceived risks that will challenge the status quo in the supply market. For example, the aerospace industry has long product life cycles and is highly risk-averse given the overwhelming need to put safety first. Incumbent suppliers will retain a large degree of power based on the stickiness of buyers and the challenges of replicating a suppliers' intellectual property. Much of the supplier uniqueness is based on custom and practice know-how that is hard to systematize and scale easily in a world of low-volume manufacturing.

Contrast this with the high-tech industry, where multiple generations of products are launched within the lifetime of one airframe or engine. High volume also enables a more systematized approach in which suppliers can be commoditized more easily unless they innovate and force the performance curve. And yet, even the aerospace industry is changing as it converges with the high-tech industry. Suppliers' ability to retain residual power will be greater here than in many other faster-moving and less risk-averse sectors.

Other factors will also affect the speed of change. For example, tariffs and other government restrictions may enable some suppliers to insulate themselves for a time. Rules that seek to limit the ability to recreate intellectual property may also be involved. These will delay but not change the underlying domino effect as buyers' power increases across the supply chain (see figure 6).

Figure 6
Buyers will become more powerful in high-volume industries with fast product life cycles

Illustrative



Source: A.T. Kearney analysis

Suppliers will not surrender

Constant improvement and innovation are the only mantras for suppliers' long-term success. Although erecting walls as impediments will not be a sustainable option, this will not stop many suppliers from trying to do just that. In fact, many will try to resist the reduction in relative power. Some will attempt to move upstream to get closer to scarce commodities that they hope to control, and some will seek artificial ways to keep power by using tariffs, regulations, and restrictions on using intellectual property.

Many manufacturers have already moved into providing services associated with their products, such as maintenance, outsourced machine operations, and even selling their data as a product. The growing ubiquity of digital and the IoT means that data is a competitive weapon. This has increased supplier power by making buyers less keen to switch and appears to be part of a response to manufacturing becoming less unique. Expect to see more suppliers going down this path—inflating the value of the services and data they provide as a way to create stickiness.

Buyers need a ruthless focus on using supply chain disruptions

In the future, buyers' overall power will increase, but an individual buyer's decisions will affect the degree to which he or she can gain power and then use it. This will require playing a long-term game to capture relative power. At the same time, buyers will need to be nimble to take advantage of new opportunities—seeking alternatives while never losing sight of the big picture.

There are three practical ways to do this:

Retain open choices. As much as possible, remain unconstrained in the supply market. Be prepared to sacrifice short-term gains at the expense of the long-term ability to retain free decision making. Also, seek to avoid lock-ins with suppliers as part of a multi-year approach.

Strategically manage intellectual property. Retain or take control of the intellectual property needed to wield power in the supply market and compete in the product market. Be especially careful with respect to key design rights and ownership of drawings, specs and data. Avoid suspending commercial judgment and getting carried away with the strategic relationship.

Leverage supplier innovation. Consider the alternatives, and develop ways to improve your competitiveness by taking advantage of supplier-driven innovation. Invest in suppliers that can bring game-changing innovations. Be prepared to create exclusive supply agreements with vendors, but maintain control of the intellectual property that creates a competitive advantage.

These recommendations are in line with today's best practices for direct procurement. And yet, buyers will need to be far more agile in how they deploy the techniques to take advantage of the opportunities and the domino effect of buyers' escalating power. The Purchasing Chessboard will still be relevant, but it will need to be deployed on steroids—like a tactical round of speed chess.

Apple Has Already Made the Next Move

In many ways, the high-tech industry is already pointing to the future of direct procurement. Apple is a good example, having used its supply chain to create a huge competitive advantage. A significant part of the iPad's success can be traced to the exclusivity arrangement the company created with Corning's Gorilla Glass before the product became a blockbuster. This left competitors years behind in the tablet market and is a classic example of leveraging supplier innovation in a smart way.

Apple also invests in constructing supplier factories to manufacture components such as touchscreens, chips, and LED displays. In return, Apple receives exclusive rights to the products that those factories produce, keeping competitors at bay by deterring access to these essential assets. And all the while, Apple can charge a premium for its products. When competitors eventually catch up, Apple is ahead of the game—producing the product cheaper and capturing more profits. Then, the cycle starts again in a process of constant innovation in manufacturing, design, and process where no members of the supply chain can erect permanent walls to protect their position but must constantly improve.

Apple does not appear to be sentimental about these arrangements and avoids getting locked into supplier relationships. Relative demand and supply power are managed, as is the key intellectual property needed to compete. The recent dispute between Apple and Imagination Technologies is a good example. Imagination was a long-standing supplier of technology for the graphics processing units in Apple's mobile devices. This intellectual property is obviously essential, and Apple has developed its own technology, ending its use of Imagination's technology. This business-focused and unsentimental behavior is a prime example of pursuing open choices and managing key intellectual property. This approach is not all that surprising, given that Apple CEO Tim Cook has a background as a supply chain leader.

The core skills and tools of direct procurement will become more pertinent than ever as buyers gain power. Businesses and their buyers that can master these will have a strong competitive advantage. However, the industry is facing a talent shortage.

Procurement Talent: It's Time to Panic

With automation quickly making today's skills irrelevant, the days of procurement staff as order-takers is over. The skills required to do the job today—haggling, monitoring, and executing tasks—will become irrelevant as automation makes these basic tasks unnecessary. With the rise of robotic process automation and cognitive AI, transactional work such as placing orders is rapidly disappearing. And yet, top-quality talent is a scarce commodity.

Eventually, more complex work such as indirect category management will also vanish. An organization with 1,000 employees today will likely have 100 in the not-too-distant future—and those that survive will have a much different set of skills.

> With automation quickly making today's skills irrelevant, the days of procurement staff as order-takers is over. And yet, top-quality talent is a scarce commodity.

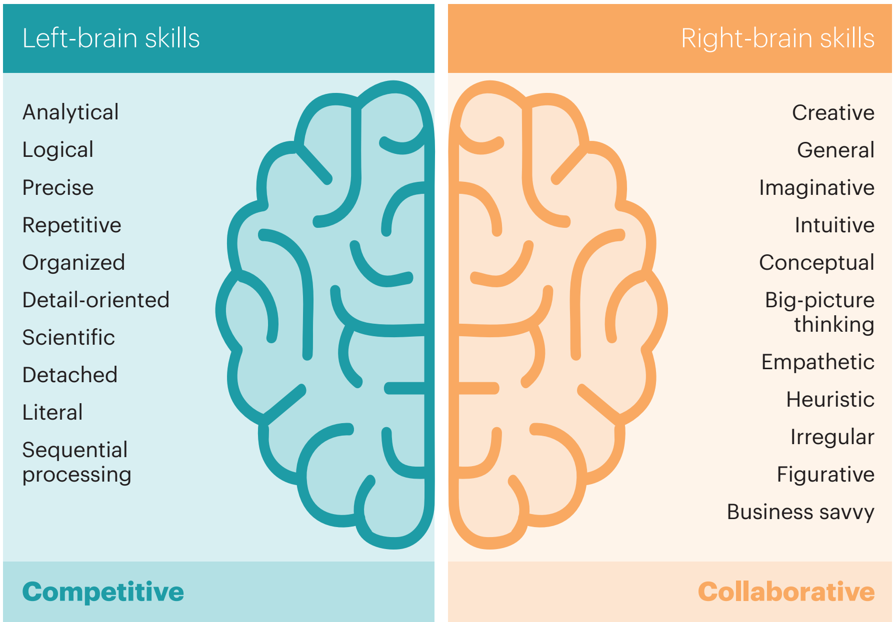
Beyond procurement, most enterprises are engaging in some sort of digital transformation that is rationalizing legacy jobs (especially back-office jobs), reengineering and streamlining processes to drive efficiency, and looking to hire talent with 21st-century skills, such as analytics fluency, design thinking and agility. Simultaneously, technology companies, start-ups, and even non-profits are attracting those with great skills and even greater potential: Gen Y employees. Unlike their Millennial predecessors, Gen Y employees have spent their entire lives immersed in sophisticated technologies such as AI, big data, programming, and on-demand access to top-notch educational content online. However, while this generation and those that follow will eventually become ubiquitous in the employment market, there are only so many of these people available today. Thus, it is a classic problem of supply and demand: there is a finite supply of talent amid massive demand. This dynamic is complicated by the fact that, in addition to commercial success, many in Gen Y seek altruism and a true sense of social value.

Making matters more complex is the fact that the benefits of acquiring and cultivating talent are long-term at best. This is challenging in an era where there is more pressure to drive immediate and significant results. Any CPO investing in talent may not be around to reap the rewards or receive the credit for his or her efforts. In fact, any time and money spent on talent today may impinge on short-term benefits. And yet, doing nothing is not an option either, because large low-value organizations are already under pressure to downsize and reduce costs. So those that value the profession and the long-term success of the business will choose this despite the lack of obvious short-term payoff.

New skills and a whole-brain approach

Procurement of the future must proactively provide high-quality customer-focused experiences—a by-product of the digital consumer revolution. In practical terms, this means locating procurement with the product lines so they can anticipate and respond rapidly. This also requires critical skills, which are not mutually exclusive, in support of the required new areas of focus (see figure 7):

Figure 7
Procurement requires whole-brain thinking



Source: A.T. Kearney analysis

Overall process orchestration. Building and sustaining customer-focused experiences requires abilities such as design thinking, process engineering, complex vendor management, and fluency in technology architectures.

Strategic category management. Managing supply-and-demand power requires left-brain traits, such as logic, reasoning, numbers, and analytical thinking, which are crucial for value-added activities such as total life-cycle management, value-based sourcing, and collaborative cost reduction.

Supplier relationship management. Advanced supplier relationship management (SRM) requires right-brain traits, such as creativity, intuition, emotional intelligence, and visual comprehension, which are crucial to accomplishing initiatives such as strategic alliances, supplier development, and sustainability innovation. It also requires advanced negotiation skills that go far beyond classic haggling techniques.

Moreover, employees will need to embrace often-overlooked skills such as written and verbal communication, listening, and personal reputation management and branding. Communication skills in particular will require being adept at making clear and concise arguments as well as writing in both long- and short-form narratives. Procurement personnel must be comfortable presenting to a wide variety of audiences from the board and executive level to hundreds of general business users. In short, they will need to be good storytellers—both written and verbal—to convey the relevant business cases, benefits and value-creation components.

Procurement is beginning to look like a tech company. Successful tech companies treat their services and solutions as products, and they employ product managers—or at least have a product manager mind-set. Product managers own a solution from end to end—from development and deployment to usage and ongoing enhancement. Colloquially, product managers are often referred to as a product CEO. At any point, they can articulate the current or projected return on investment, areas for improvement, and level of customer satisfaction. This ensures full accountability and transparency and creates the best opportunities for customer satisfaction, which can then be measured at the individual, organizational and executive levels. Effective product managers are curious and passionate about how their solutions are being used. They continually invent solutions to problems, innovate new features, and simplify processes. Leaders empower these product managers to be nimble, take risks, and make decisions that support the business needs.

"Talent is my biggest challenge."

—global CPO

Successful tech companies also continuously measure customer satisfaction by using net promoter scores to quantify whether a product or service is meeting users' needs. This requires soliciting user feedback and turning it into practical insights, a process that requires checking one's ego at the door. Simply sending a survey is nowhere near good enough. Successful product managers try to grasp what silent users are doing, knowing that they are often the ones who are too frustrated to engage in a constructive dialog to improve the product or service. In these cases, product managers must double down on behavioral analytics to predict, test and validate improvements.

As procurement starts to operate more like a tech company, it will become more attractive to the new generation of talent. As other functions struggle for identity and relevance in the age of automation, procurement will benefit. For example, who would want to go into accounting when bots will streamline—and eviscerate—the function? However, procurement can use the same automation techniques to offload low-value tasks to pursue more strategic, impactful, and socially conscious ways to help the business and society. That will surely be appealing to many.

Get Moving—You're Already Late

There is no time to waste. Given the finite supply, the competition for talent is a no-holds-barred affair. Perhaps the most important step will be rebranding. Historically, procurement has had an image problem. The idea of haggling with suppliers and enforcing purchasing controls appealed to few. Consequently, procurement struggled to attract and retain the best talent. Yet, in an era where procurement can drive innovation with suppliers, use cutting-edge technology such as negotiation bots, and implement a true sustainability program, this traditionally dowdy function suddenly looks a whole lot more appealing.

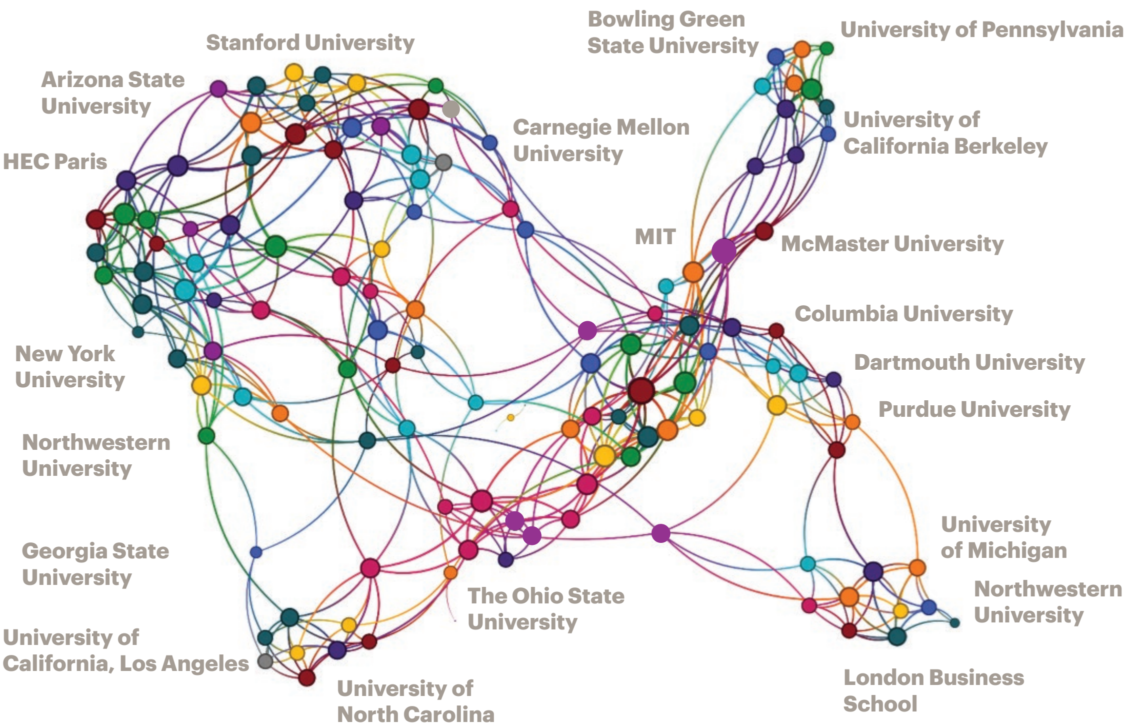
Rebranding itself is not some fake exercise where everyone sits in a room thinking of adjectives to describe the group. It should be a fundamental mind-set revolution paired with an attitude adjustment that shifts the focus to the excitement and social difference procurement can make. These are messages that will resonate with the Millennials and Gen Y.

Because people with these advanced skills are not easy to find, companies will have to work doubly hard to build a robust pipeline of talent. This is not a passive activity. CPOs and leaders will need to hustle to win out over not only start-ups and other competitors, but also other groups within the same enterprise. This means having an active presence at universities with programs that equip students with the right mix of skills and experience. Doing lectures, sponsoring theses, and recruiting are just a few of the many ways to engage with—and inspire—the next generation.

Unfortunately, there is no obvious road map for engaging with universities. For a long time now, procurement organizations have had an eclectic composition of talent, with people taking all manners of journeys to get there. For evidence, look no further than the educational backgrounds of a random sampling of the LinkedIn profiles of procurement directors, vice presidents, and CPOs (see figure 8). Out of 131 profiles, 101 universities are represented.

Clearly, there are no procurement feeder schools like there are for finance, IT, and other more traditional disciplines. More precisely, there are well-established undergraduate and graduate programs in finance and accounting that consistently churn out a cadre of well-qualified

Figure 8
An array of universities are producing today's procurement leaders



Note: Data obtained from 131 LinkedIn profiles of procurement directors, vice presidents, and CPOs.
Sources: LinkedIn; A.T. Kearney analysis

candidates each year. These candidates follow a well-trodden career path into the financial profession. Few such graduate programs exist for procurement, and there are even fewer at the undergraduate level. Although there is nothing wrong with an eclectic approach to team-building, procurement is at a disadvantage because there is no universal pool from which to draw from. Ambitious leaders will see this as an opportunity to build custom university partnerships and have first pick at new talent.

In addition to looking externally for talent, there are likely rough stones in the internal employee pool that can be polished into diamonds. If there are 1,000 employees today, statistically speaking, a portion of them should have some of the skills and desire to make the transition to the new paradigm. This will require doing a multi-level capability and character assessment. Investing in employees who make the cut and can make the transition will pay huge dividends.

> As it starts to operate more akin to a tech company, procurement will make itself more attractive to the new generation of talent. As other functions struggle for identity and relevance in the age of automation, procurement will benefit.

Ultimately, procurement is exciting, and the CPO and his or her leadership must convey a sense of excitement. The ability to create a buzz around procurement will provide the advantage in the push for talent. Creating excitement can be easy, as good procurement makes a difference, not only to the bottom line, but also to society. Tracking and contracting suppliers with sustainable practices or socially conscious agendas, or helping them to adopt these behaviors, sits squarely within procurement's purview. For upwardly mobile employees who aspire to leadership positions in other disciplines, procurement is an excellent place to advance from for roles beyond procurement. What better place to learn how an organization operates than to engage in its supply base and external spend? And procurement done well will give tomorrow's leaders the necessary hands-on experience in strategy for CEO and other senior leadership roles.

A New Operating Model

Procurement of the future will focus on its true reason for being: how it can translate supply market value into product value. Doing this effectively will require a new operating model and more advanced capabilities.

Today, detailed procurement operating models (and the scope of the function itself) vary across industry and within industries based on many factors. Nevertheless, most are center-led and category-focused, with allowances made for specific geographies for local categories and for enabling user engagement. Often, a back-office processing function takes care of simple tactical sourcing needs and administration of procure-to-pay systems.

Procurement of the future will align to product-customer offer teams to shape categories that directly impact the product offer, with a focus on high-value commercial input and orchestration of supplier behavior. For other categories of spend, the focus will be on user enablement and automation, recognizing that users want to purchase solutions that may cut across classic categories. The categories that directly impact the product offer will vary by business and industry. Typically, all direct categories impact the product and, depending on the situation, a proportion of the indirect ones. The traditional accounting-driven, direct–indirect split is not necessarily helpful in this respect (see figure 9).

Figure 9
Overview of the future procurement operating model

Categories integral to the product offer	Categories not integral to the product offer
• Varies by industry but usually includes all directs, packaging, marketing, and other spend that directly impacts the offer	• Varies by industry but usually includes most indirect categories including facilities, professionals services, repairs, transport, and IT
• Operating model aligned to products • Procurement activity integrated in product development or innovation teams to improve the offer	• Operating model aligned to user communities • Procurement activity focused on supporting users to buy solutions to meet their needs
Procurement role predominantly • Providing high-value commercial input—orchestrating supply and demand power • Obtaining the right behavior from suppliers—managing relationships well	**Procurement role predominantly** • Ensuring technological enablement in place—so that users or stakeholders can self-serve as much as possible • End-to-end orchestration—ensuring that the processes and enablement work, including the data analytics to make decisions

Source: A.T. Kearney analysis

A Procurement Imperative for CEOs

During a company's day-to-day operations, procurement is often much lower on the agenda even though the function is essential to financial performance. In fact, depending on the industry, external spending can be more than half of a company's overall cost base. World-class procurement is about much more than delivering savings from better deals with suppliers. A CPO's true objective is to improve the competitiveness of the business by converting supply market value into product value. This must be of deep interest to CEOs, and in the future, doing this well will be more important for a company's competitiveness.

Five moves can ensure procurement is creating the most value:

- Drive bottom-line improvements with strategic sourcing that addresses supplier choices, specifications and service levels, and systematic demand management. This includes robust approaches to ensure that financial benefits land directly in the income statement rather than being frittered away or getting lost.
- Create the right supplier behaviors to achieve the organization's objectives for innovation, sustainability, and risk management as well as creating winning ecosystems across the supply market.

- Manage supplier interactions in a differentiated way according to the value the supplier can bring and deploy it across the whole organization.
- Make the purchasing experience straightforward for internal users, so they can focus on their core roles.
- Orchestrate the end-to-end user specify-to-pay process so transacting with suppliers is seamless, effective, and efficient across the organization while still being controlled.

Only a small number of global leaders achieve these outcomes. This approach can bring above-normal financial benefits as seen in A.T. Kearney's Assessment of Excellence in Procurement studies over the past three decades—to the tune of a 60 percent higher return over and above the cost of running procurement, compared with what is typically achieved by non-leader procurement functions. Leaders sustain this result over time—even after a merger.

The CEO–CPO Disconnect

The first step is to understand the common misalignments between CEOs and CPOs (see figure 10). CEOs typically have several needs from the external market, predominantly bottom-line improvements to enhance profits with sustainable cost reduction as well as innovation to help grow the top line while also managing risk. In addition, many CEOs want to know how well procurement is performing compared with the competition, and they want to translate supply market value into product value.

Although no CPO would disagree with any of these needs, procurement often doesn't tackle these points head on. Procurement's focus is often on savings, commercials, and legal remedies. There is nothing wrong with any of these objectives; they simply do not go far enough, which can frustrate CEOs.

Figure 10
CEOs and CPOs are often out of alignment

CEO needs from procurement	Classic procurement focus
Bottom-line improvement: How can we achieve real sustained cost reduction?	**Savings:** Reinvestment and leakage are not procurement issues.
Innovation and revenue growth: Can suppliers help?	**Commercials:** The business needs to work with suppliers to tap into their innovation potential.
Risk management: How can we avoid catastrophic supplier-created events?	**Legal remedies:** Risk is managed by creating contractual remedies.

Source: A.T. Kearney analysis

In that respect, savings are usually the prime currency that procurement uses to measure its contribution to the bottom line. Many CEOs often rightly distrust claims about savings and, of course, want to enhance profits. They also intuitively understand that measuring savings is not an exact science. CPOs then spend much of their energy discussing savings that do not always affect the bottom line and that they cannot fully control anyway. Then, they lack the authority needed to control the end-to-end processes to do their job effectively, including procure-to-pay processes to lock in savings. This includes offering an effective service to users and overall orchestration of supplier relationship management to ensure that the commercial perspective is considered in all supplier interactions. Instead, they end up conceding authority for these processes (often implicitly) to other CxOs who have different objectives.

"I do not know how well my procurement function is helping us to compete better."

—CEO

The processes that CPOs do control then often become administrative tasks that slow users down rather than creating value with better specifications, more suitable supplier choices, and fit-for-purpose commercial terms. By pursuing this course, CPOs can create undue drama that makes them look bad to the CEO and C-suite. The key business objectives of delivering innovation from the supply base and managing risk then get overlooked and are not tackled systematically. There is even a tendency to assume that other functions will launch the capabilities that procurement needs. For example, one global CPO told us it was not his job to build an analytics capability. In another organization, finance controlled the process of giving spend information to procurement—rationing it and adorning it with accounting policy-related add-ons that clouded transparency into what had been spent when and with whom.

It's easy to see why many CEOs think procurement is only about making deals and haggling with suppliers with a limited focus on translating supply market value into product value. Many question procurement's claims about its value and get frustrated that they lack a yardstick to measure the results of their procurement compared with their competitors.

How CEOs Can Support CPOs

If procurement is not effective, then value is being left on the table. Many CPOs need to be more ambitious, take more internal risks, and communicate the value they can bring. To do this, they need CEOs who encourage and nurture their role. So, how can CEOs create an environment that values procurement, so the company can reap the benefits?

As mentioned, leading procurement organizations deliver 60 percent higher returns on the assets invested in procurement—with significant benefits to the bottom line beyond the added value of addressing supplier behavior and reducing supply chain risks. In these companies, the CPO is a senior member of the executive team who can be trusted and held accountable for articulating and executing the function's agenda.

There are three practical ways for a CEO to set up a CPO for success.

Agree to a center-led operating model

A center-led operating model is crucial for effective procurement. The procurement team needs to report to the CPO, who then needs to be able to deploy the team on the most value-adding activities and have accountability for achieving results. This way of operating creates a wealth of opportunities to deploy best-practice processes, build professional capability across the function, and drive the widest possible value from external spend.

However, this needs to be done in a way that avoids a silo mentality. There are many examples of centralized procurement functions that end up disconnected from the business, creating strategies that do not land with stakeholders even though they looked good from a procurement perspective. Instead of creating value, this approach can result in the edifice later being dismantled and the pendulum swinging back to a decentralized model. Leading CPOs deploy the model in a way that considers a variety of stakeholders' needs and provides a service to the business rather than dictating outcomes. A supportive CEO encourages the center-led approach while stressing the need for balanced governance to ensure procurement does not become all-powerful in a counterproductive way.

Support CPO ownership of the value-creating processes

In leading organizations, the CPO owns the core value-added processes required for effective procurement, including the strategic sourcing process for selecting suppliers, agreeing on specifications and service levels, and creating policies for managing demand. This does not necessarily mean CPOs make all the decisions, but they are responsible for deploying strategic sourcing and guiding the business to achieve the right outcomes. They have the power to consider new approaches and are responsible for all external expenditure. However, many organizations make exceptions to this approach. For example, some chief marketing officers have the power to say that spending on above-the-line and below-the-line marketing is outside the scope of procurement because it has unique drivers. And for banks, some categories such as market data are also considered to be beyond procurement's jurisdiction.

This should not be allowed. Typically, earmarking an expenditure area as being out of scope is a mask for non-value-added practices, incumbent suppliers that have not been challenged for a long time, and out-of-date approaches to specifying requirements and setting demand levels. CPOs need to make their own case, win the right to be involved, and argue for their own corner. In leading companies, the CEO understands that all external expenditures should be the domain of procurement and is prepared to help the CPO defend this with any reluctant colleagues.

Similarly, the CPO needs to own the supplier relationship management process to obtain the right supplier behaviors and manage risk by measuring and giving feedback about supplier performance as well as ensuring contract and service level compliance. This also includes working with selected strategic suppliers to capitalize on their potential to bring innovation to the business that can fuel competitive performance. The CPO should not own all resources involved in supplier management since business stakeholders are often closest to the issues associated with specific suppliers and contracts. However, the CPO needs to deploy the overall process that others will follow and ensure that the commercial perspective is brought appropriately on all dealings with suppliers.

Procure-to-pay is the final piece of the procurement process, enabling users to make purchases against pre-agreed contracts and enabling suppliers to be paid. Procurement needs to own this process, too. Again, this does not need to include all resources. For example, requirements for segregating duties often mean that the staff of accounts payable report to the CFO. But the ability to steer procure-to-pay is fundamental to delivering the most value from procurement and for creating an efficient and effective user experience. The front end of the process is how users are routed to the right pre-sourced suppliers, with the right specifications, or guided to seek the right help, if a new agreement is needed. The back end of the process in payables gives transparency into what is spent with whom to aid decision-making. Control of these areas is necessary to enable procurement to improve the bottom line.

Create shared comprehensive targets for procurement

Procurement cannot deliver value in isolation (see figure 11). Real value comes from factors such as a willingness to choose different suppliers, use different specifications and service levels, and systematically manage demand. Benefits are only realized if people use the negotiated deals and avoid doing their own thing.

Figure 11
Forward-thinking procurement requires a shared vision

What procurement needs to focus on	How CEOs can help
Drive bottom-line improvements and risk management with **strategic sourcing** that addresses supplier choices, specifications, and demand with benefits that land in the income statement.	Agree to a **center-led operating model** with the CPO being accountable for procurement performance across the whole organization and with all external spend being in scope.
Create the **right supplier behaviors** to achieve the organization's objectives through differentiated management of supplier interactions.	Support **procurement ownership of the core processes** needed to drive value from external spend: strategic sourcing, procure to pay, and supplier relationship management.
Orchestrate the **end-to-end user experience** so transacting with suppliers is seamless, effective, and efficient across the organization.	Put in place **shared and comprehensive targets for procurement** that encourage cross-functional collaboration and all approaches to drive value.

Source: A.T. Kearney analysis

CPOs should drive the value creation, but if they are the only executive targeted to achieve benefits from external spend, then procurement will not get the support it needs. Therefore, CEOs should ensure targets are shared across the organization to facilitate cross-functional working rather than silos. Procurement then needs to be targeted on a balanced scorecard that includes objectives for financial benefits, quality, innovation, and responsiveness, to ensure the right trade-offs are made.

By the same token, procurement targets need to be comprehensive. Some organizations only allow procurement to claim benefits from pure price reductions for the exact same specification—excluding any benefits from specification and service-level changes, product substitutions, or policy-driven demand reductions. This is counterproductive and does not encourage collaboration or an expansive approach to driving procurement value. Leading organizations allow procurement to create value in all ways—with the stipulation that the benefits get locked into the business so that savings are not just spent.

A Future-Proof Approach

A few global businesses are set up with a future-proof approach. One of the most successful businesses in the world that consistently achieves double-digit top-line growth, a double-digit net profit margin, and sustained cost reduction has all these elements in place, along with a highly capable CPO who is part of the top executive team.

Procurement is center-led and has ownership of the key value-adding processes along with being a hub for innovation. The benefits created by procurement are comprehensive and go far beyond pure deal-making to embrace new approaches to the supply market, support for the company's sustainability agenda, and radical process automation. An end-to-end external spend governance approach interlocks procurement benefits into budgets and avoids leakage.

The CPO recruits the best talent from business schools, and working in the procurement function is seen as a career training ground for other roles in the organization. The CEO, CPO, and wider executive team have collaborated to create a culture that is highly conducive to great procurement and delivers consistent value year after year.

At this organization, procurement is not a defensive mind-set but rather an offensive weapon that has created exclusive arrangements with ecosystem partners to take advantage of new technology to improve the bottom line and enable sustainability in the supply chain. It has also innovated new economic and sustainable uses of by-products rather than simply negotiating a cheap price for disposal. Procurement has been in the foreground—making things happen and taking value creation to a whole new level.

This level of performance should be the norm. After all, in most organizations, procurement is the corporate-wide function with the strongest orientation toward value creation. Its reach is both broad and deep while still being tangible, practical, and operational—a much different model than, for example, finance, which is focused on the numbers in the accounts. Procurement done well creates value that no other function can surpass. This is the model to emulate.

Authors

Stephen Easton, partner, London
stephen.easton@atkearney.com

Hugo Evans, vice president, San Francisco
hugo.evans@atkearney.com

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